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## REVIEW OF PRIORITY THEMES

## The impact of organized criminal activities upon society at large

## Report of the Secretary-General

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## INTRODUCTION

1. The prevailing trend towards an intensification of organized criminal activities, both domestically and internationally, continues to cause much concern and alarm among authorities and populations of both developed and developing countries. Efforts so far undertaken at the national level to cope with this growing threat have been less than successful. In fact, instead of showing any noticeable decrease, evidence suggests that the multiple activities of organized crime continue to flourish and expand beyond national borders and, thus, beyond national jurisdictions. The limited results so far obtained have made authorities aware of the acute need to reinforce national law enforcement by means of effective international cooperative arrangements and policies. Thus, cooperation and coordination are indispensable complements to national interdiction efforts. In other words, the increasingly international character of the threat necessitates an equally international response.

2. The concerns of Member States have been repeatedly formulated in recommendations and resolutions. They were again stated at the Seventh United Nations Congress on the Prevention of Crime and the Treatment of Offenders 1/ and the Eighth United Nations Congress on the Prevention of Crime and the Treatment of Offenders, 2/ and in the corresponding resolutions of the General Assembly (see resolutions 44/71 of 8 December 1989, 45/123 of 14 December 1990 and 47/87 of 16 December 1992) and the Economic and Social Council (see resolution 1989/70 of 24 May 1989). More recently, the Economic and Social Council adopted, upon the recommendation of the Commission on Crime Prevention and Criminal Justice, resolution 1992/23 of 30 July 1992, by which it reaffirmed that priority must be given to the struggle against all activities of organized crime, and requested the Secretary-General to continue the analysis of information on the impact of organized criminal activities upon society at large. The present progress report has been prepared as a preliminary response to this mandate. Subsequent reports will attempt to provide a more focused analysis of specific aspects of the problem. This approach is rendered necessary by the complexity of the subject, which prevents exhaustive treatment in one single report.

## I. NATURE AND EXTENT OF THE PHENOMENON

### A. Characteristics of organized criminal activities

3. As is often the case for highly complex social phenomena, all efforts to formulate an unequivocal and universally accepted definition of organized crime have failed. In fact, the relevant literature contains many different definitions, none having met with general acceptance.

4. The list of characteristics given below should help to explain something of the nature of the phenomenon in question:

(a) Organized crime is a confederation of criminal individuals or groups that come together because of economic needs, closely resembling the feudal bands which existed in medieval Europe before the nation-States emerged. Economic gain is achieved by supplying illegal goods and services, or supplying legal goods and services in an illegal manner;

(b) Organized crime involves conspiratorial criminal activity, usually involving the hierarchical coordination of a number of persons in the planning and execution of illegal acts, or in the pursuit of legitimate objectives by

illegal means. It involves a permanent commitment at least by key members. In terms of hierarchical coordination, members may be part of a set structure with well-defined roles;

(c) Organized criminal groups have a tendency to establish a monopoly or near-monopoly in providing illegal goods and services to customers, since higher profits are guaranteed in this manner;

(d) Organized crime does not limit itself to patently illicit undertakings or illegal services. It also includes such sophisticated activities as money-laundering through legitimate business and computer manipulation. It infiltrates many kinds of profitable, legal endeavours;

(e) Organized crime uses predatory tactics, such as intimidation, violence and corruption. These tactics may be sophisticated and subtle, or crude, overt and direct. They are used to secure economic gain through a monopoly in illegal goods and services, as well as to infiltrate legitimate enterprises and to corrupt public officials. Thus, when organized crime embarks on a venture in legitimate business, it ordinarily brings along all the techniques of violence and intimidation which are employed in its illicit enterprises.

5. A further complication is the growing vagueness of the line between organized crime and white-collar crime, a development that compounds the separate social problems represented by these two types of criminality. As organized criminals adopt the methods of economic criminals, they often cause the distinction between themselves and the white-collar criminals to be blurred. This process has been described as a decreased reliance, at least by some criminal organizations, upon rackets and illegal means, with an increased reliance upon illegal manipulation of legal means. This trend masks the threat of organized crime to society in so far as it reduces the visibility of both the offences and the victims of those offences.

6. A particular case of organized criminality is found sometimes in countries governed by one-party or authoritarian regimes, in which the rulers organize themselves and their immediate followers into a criminal organization. All the power of the State is, in such cases, used to ensure the millions in profits of the group at the top. Thus, business leaders may be forced to give a substantial share of their companies to members of the ruling elite, who become legal partners without having had to buy their shares, or may be forced to pay the rulers a large share of their profits, beyond that which may have been already paid as taxes. There are multiple ways to "milk" the economy under such circumstances without necessarily appropriating monies from the public treasury. Profits are huge, as has been revealed after the downfall of such regimes.

7. The changing world situation, moreover, has altered the dimensions of the phenomenon of organized crime. In the past, the problem has been considered in the context of socio-economic development, so that in fact the measures devised to cope with it were influenced by the developing or developed status of the affected countries. To this a third dimension has been added: countries which cannot be regarded as developing in the traditional sense, but which are undergoing traumatic political and economic change. The pre-existing structures in those countries have collapsed, while democratic structures still lack solidity and the means to deal efficiently with the problems confronting them. There is already abundant evidence that organized crime is exploiting these situations. This could have devastating consequences in so far as the stereotypes of free-market economies, as painted by earlier regimes,

may come to be perceived as being real. Unless organized crime in these countries is rapidly and effectively brought under control, there may be a danger of growing opposition to the ongoing political and economic reforms.

B. Internationalization of the phenomenon

8. International involvement of organized crime has certainly existed in the past. During the Prohibition era in the United States, for instance, organized crime in that country had to establish business contacts beyond national borders. These contacts were indispensable if the supply of illicit goods was to be ensured. Such international dimensions remained, however, limited and, sometimes, occasional and short-lived. Similarly, such internationalization is essential where demand exists in one country or part of the world for a product which exists, or is produced, only in another. Until 1960, gains made from the provision and trade in illegal goods were not of such a magnitude as to generate sufficient capital to seriously impact on legitimate economies. This was drastically changed through, inter alia, the explosive expansion of the consumption of drugs in the Western world and the growing internationalization of the economy.

9. Modern technology has provided new impetus not only to legitimate trade and commerce, but also to criminal business enterprises. Thus, mass communications have facilitated contacts with associates in other countries and continents, modern banking has facilitated international criminal transactions, and the modern revolution in electronics has given criminal groups access to new tools enabling them to steal millions and to launder the huge illicit profits. The modern era has both armed and encouraged organized crime in many countries to unite forces for the purpose of preying on society. This is at the root of the contemporary threat.

10. The profitability of trafficking in illegal drugs, coupled with the rapid expansion of the market in the course of the 1980s led to a situation where the "narcodollar" began to assume the economic significance of the petrodollar in the 1970s. 3/ The report will refer to this again hereafter.

11. The evolution of organized crime in recent decades may be conceptualized as a process of rational reorganization, on an international basis, of criminal enterprises following the same patterns as legitimate business operations in market economies. Thus, organized crime manifests a tendency toward greater organizational complexity which is deeply entrenched in the dynamics of the modern world. This is to say that criminal organizations are being structured, both nationally and internationally, like major corporations, with a corresponding division of labour aimed at ensuring optimal efficiency, that is, profit maximization and maximal reduction of risk. Thus the drug cartel has divisions for acquisition, production, transport, sales and financing, in the same way as other transnational corporations. The main difference from an ordinary transnational enterprise is the inclusion of an "enforcement division" in criminal organizations.

12. As a result, there is almost no country in today's world without some form of organized criminal activity. The secret societies of Asia and the Mediterranean proliferated and migrated to the Americas and to Northern Europe, bringing along their centuries-old traditions as well as their foreign connections. In the new democracies of Central and Eastern Europe, criminal associations have sprouted spontaneously and grown as the socio-political instability generated by the rapid transition from one-party to multiparty systems led to a

sharp decline in law enforcement effectiveness, thus providing the needed elbow-room for organized criminal operations.* Latin America and the Caribbean have witnessed the birth of powerful criminal associations as soon as the demand for certain goods and services, mainly drugs, made operational rationalization indispensable.

13. Some experts have compared contemporary organized crime to a corporation, run by the equivalent of a corporation's board of directors. Like the corporation, it would continue to exist despite changes in leadership, thus enjoying perpetual existence. This image may be an exaggeration. The real situation seems to be closer to that of an oligopolistic market, with units of different size and importance competing for profits.

### C. Specific fields of operation of organized crime

14. In the public mind, organized crime has been frequently associated with illicit drug trafficking. The current prevention efforts of national authorities have, if anything, reinforced this common perception, in so far as they have predominantly concentrated on interdicting the illicit drug trade ("war on drugs"). But drug trafficking, although probably one of the most important and profitable contemporary fields of operation of organized crime, both nationally and internationally, is only one of a multitude of criminal activities carried out by criminal associations. In fact, organized crime becomes more imaginative and more diversified every day. To traditional fields, such as gambling, loan-sharking and prostitution, it has added a variety of enterprises, most of them presenting an international dimension.

15. Illicit trafficking in arms is no new criminal phenomenon. Its volume, however, has been radically stimulated by current political instability and accompanying armed conflicts. Ethnic, religious and nationalistic clashes, escalating in some cases to outright war, in such regions as the Balkans, the Carpathians, the Caucasus, East and West Africa, and Western Asia are at the source of vast increases in illicit arms trade. Large military depots have fallen out of governmental control and into the hands of organized criminal entrepreneurs who have rapidly developed the necessary supply lines. In the first half of 1992, the overall amount of registered thefts of firearms in a new Eastern European democracy has increased by nearly 30 per cent. 4/ It may be added that the risk of nuclear devices falling into the hands of criminal organizations is, under present near-chaotic circumstances in some parts of the former Union of Soviet Socialist Republics (USSR), not negligible. According to at least one media report, traffic with fissionable material has already been attempted. 5/

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*"... gangsters are moving in on business, government and the daily lives of the long-suffering population. On the street, people talk about 'the mafia' but the problem doesn't spring from Sicily. It's home-grown and nationwide: Ministry of Interior investigators count almost 3,000 gangs across the country. With the help of well-armed 'bullies' they extort millions of dollars and operate rackets from prostitution and drugs to the arms trade." D. Elliot, "The new Chicago on the Neva", Newsweek, 5 October 1992, pp. 14-19. See also M. Goldman, "Russia's only growth industry", Worldlink, September/October 1992, pp. 19-23.

16. Organized crime has recently set up in Western Europe a vast and highly effective network responsible for meeting the growing demand for automobiles in Eastern Europe, Western Asia, Africa and Latin America. Newly opened borders and first-class forgery of documentation make detection extremely difficult. And, as is typical with organized criminal structures, the arrest of the individual thieves hardly affects the ongoing functioning of the organization.

17. The volume of goods being moved by road has very rapidly increased in recent decades. This is particularly true of Western Europe and the United States. Organized crime has been quick to seize the opportunities that this development presents for huge and rapid profits through cargo theft. The number of lorries being hijacked runs into the thousands every year, and continues growing. The stolen merchandise is rapidly and efficiently disposed of through a network of well-established channels of delivery. Given the enormous amounts of goods being transported by road, and the imperative need to disturb as little as possible this vital flow, the problem of prevention becomes very difficult. Open borders only make more acute an already grave situation.

18. The booming market for art objects and archaeological items has also attracted the attention of organized crime. There are, in this respect, two main theatres of operation. The first of these encompasses artistic objects and valuable antiques to be found in museums, churches, galleries and private collections, predominantly in Western Europe, but, more recently, and thanks to the increased permeability of borders, in Central and Eastern Europe and the newly independent States of the former USSR. The second covers cultural (artistic) items to be found predominantly at archaeological sites (tombs, temples, remnants of human settlements), but also in museums, in developing countries in Africa, Asia and Latin America.

19. Whereas the objects in the first area remain in the art markets of the Western world, where, sometimes with the complicity of unscrupulous art dealers, they become part of private collections, the second category of objects flows from the developing to the developed world, being bought not only by private collectors, but also, and regrettably, by some museums. The efforts undertaken by the United Nations Educational, Scientific and Cultural Organization to obtain the return of these items to their countries of origin have often foundered on the issue of the good faith of buyers. In both cases, the procurement of these objects, either by theft or pillage, their transport across borders and their marketing necessitate the overall logistics and expert knowledge that organized groups possess.

20. Criminal organizations, as is well known, have been quick to divert and misuse technological innovations for their own purpose. As the world becomes more technical, and people better trained, "... the talent for discovering new and unique ways of committing crimes becomes more available". 6/ This is particularly true of information-processing technologies.

21. The use of computers by the financial community has grown rapidly over the past 25 to 30 years, so that data-processing now plays a dominant role in the processing and carrying out of all types of financial transactions, both within a single country and internationally. Accordingly, computer-related crime can be truly said to be a reflection of the modernization of the economies and the vulnerability that results from the reliance on electronic communications systems that cannot be made absolutely safe.

22. Every year, computer crime causes economic losses running into millions of United States dollars (US$), with many losses undetected or unreported. 7/ In the area of electronic funds transfer alone, the volume of transactions suggests that the potential losses could exceed the losses experienced with paper-based money transfers. Frequently, banks do not want their depositors to know of their vulnerability and are, therefore, reluctant to report such crimes. Be that as it may, it can certainly be said that almost any computer-related crime can result in extremely large losses in a very short period of time, while leaving little or no evidence either of the crime, or the identity of the perpetrators. A number of cases have attracted widespread publicity to this threat. Major business publications have published hundreds of articles on how to make data-processing systems more secure. But "... the consensus among computer security experts is that ... the vast majority of ... thefts (by computer) remain undiscovered". 8/ This is an area, moreover, where legislation has frequently failed to keep abreast with technological developments, and the training of law enforcement personnel has been insufficient to discharge the tasks of detection and control.

23. A somewhat related field of criminal operations is credit-card fraud. Little is known about how the national and international markets in this kind of fraud are organized, except that credit-card theft and counterfeiting offers excellent opportunities for illicit profits. Internationally, there are well-recognized trails of lorry drivers who collect stolen cards from particular locations, sometimes after they have been heavily used by local teams engaged in fraudulent activities, and then use them systematically in foreign locations for relatively low-value transactions such as fuel, which are below authorization limits for retailers. 9/

24. Recent decades have witnessed a growing public awareness of the threat that unbridled human activities pose to the environment. Many species of animals have been literally wiped out as a result of uncontrolled exploitation. Many others are in imminent danger of extinction. In an attempt to cope with this threat to ecological equilibrium, the Convention on International Trade in Endangered Species of Wild Fauna and Flora, 10/ to which all countries are already parties, was drawn up in 1973. In addition, many countries have enacted legislation aimed at solving this problem.

25. Nevertheless, there is evidence of a thriving wildlife trafficking industry of international dimensions. 11/ Markets for illegal wildlife and wildlife products are found in a wide range of industries. "Some products are consumed in the manufacture of traditional pharmaceuticals. Some are used as novelties and in the manufacture of ornamentals." 11/ The high prices generated by this demand have not failed to attract the attention of organized criminal groups, who have promptly set up the necessary operation to supply these markets.

26. The illicit disposal of hazardous wastes seems to have attracted the interest of criminal organizations. These dangerous materials are often dumped in international waters or, with the complicity of corrupt and greedy officials, in some developing countries, where surveillance may be less than optimal. The damage to ecosystems may be irreparable, and large areas may become heavily polluted and unfit to sustain life, either human or animal.

27. At present, no country is able to meet the demand for organs adequately, and waiting lists are growing at a faster rate than the supply. For instance, an estimated 85 per cent of the patients accepted for dialysis in Ireland receive transplants in the first year, whereas in the United States only about

25 per cent of such cases result in transplants, and in Japan the figure is less than 10 per cent. 12/ In the United States alone, statistics indicate that, as of June 1991, 24,000 people were on waiting-lists for transplants. 13/ In Australia, the number of people requiring kidney transplants is about 2,000 at the present time, with about 400 transplants performed each year. The average waiting time for such a transplant is three years. 14/

28. This is a situation which organized crime was bound to exploit, as resort to exploitative and criminal practices can generate high profits where available organs are insufficient. The result may be summed up in the words of the Director of the Australian Institute of Criminology, who has been quoted as saying: "Not surprisingly, a black market ... has developed, in which organs fetch high prices." 12/ The large number of destitute and homeless persons, including children, found in urban areas, particularly in developing countries, provides a source of such transplant organs. This black market is bound to grow in importance as technological advances extend the preservation of organs after removal, so that transport can be provided over long distances.

29. The involvement of criminal organizations in the large-scale exploitation of prostitution has been known for a long time. What is new is the growing international dimension of this enterprise, and, secondly, the increasing reliance on drug addiction as a means of obtaining the compliance of the victims. Thus, young women and, sometimes, male adolescents are taken from one country, or even one continent, to another, following well-organized supply lines that connect Africa, Asia, Europe and Latin America. Victims may be deceived by false offers of work or simply kidnapped. Later, their obedience will be ensured by violence. Escape is made more difficult by the victims' lack both of contacts in their country of forced residence and of knowledge of the language.

30. While the proceeds of more traditional illicit operations of organized crime, such as racketeering, protection, prostitution, illegal gambling, extortion, loan sharking and so on, have always needed laundering, new and more international modalities of criminal activity have added considerable volume and sophistication to money-laundering, an activity which, in itself, is not yet the object of penal legislation, and therefore not yet a crime, in many countries. The ratification, however, of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988 15/ by Member States is having some influence in the adoption by countries of legislation relating to the proceeds of crime, regrettably, however, often limited to narcotics related offences.

31. Money-laundering enables organized criminals to conceal their illicit earnings from law enforcement agencies. It also enables them to reinvest their earnings in new supplies and, through investments in legitimate business, to merge with the surrounding society. The more successful the operations of organized crime, the greater the need for laundering, so that some criminal organizations may have found it "... necessary to attempt to gain clandestine control of banks, through which they could launder large amounts of cash without the knowledge of the authorities". 16/

32. In an age when hundreds of millions of dollars can be moved electronically, money-laundering is a much more sophisticated activity than it was a generation ago. But the basic means have not changed. There is no one method of "washing the cash", and no single destination once it is clean. Business and financial enterprises involved can include deposit-taking institutions, currency-exchange houses, the securities market and real estate corporations.

Various devices are used: utilizing more than one account, branch and institution in one laundering operation; employing money couriers with false identifications to open accounts; utilizing fraudulent currency-exchange houses to deposit large amounts into banks without raising suspicion; establishing legitimate or shell companies as fronts; purchasing securities through nominee accounts; utilizing stock certificates issued in bearer form; passing funds through corporations in apparently legal business activities, thus creating a difficult paper trail; moving illicit funds across borders to obscure their true source and to obstruct financial investigations; and many other methods. The ultimate objective is that the money is made suitable to feed back into the system as apparently "legitimate". Indications are that, despite the efforts of the authorities and a certain amount of success, vast quantities of cash are indeed slipping back into the mainstream.

33. Other activities of organized crime which deserve to be mentioned and which take place at either the national or international level, or at both, are insurance fraud, counterfeiting of currency, kidnapping, smuggling and fraudulent bankruptcy. The list is not exhaustive, and the future, without doubt, will witness new operations of criminal organizations.

## II. IMPACT OF ORGANIZED CRIME ON SOCIETY

34. Organized crime is nothing less than a massive attack on the fabric of society affecting practically all of its components at the individual, collective and institutional levels. It is also an insidious form of lawlessness which cynically exploits citizens' rights and constitutional guarantees for the purpose of reducing risk of detection and maximizing impunity. In this manner, organized crime threatens some of the most basic elements of a democratic order.

35. But organized crime also affects society in a large variety of more direct, more immediate and concrete ways. Some of these impacts are briefly summarized hereafter.

### A. Corruption and its sequels

36. Corruption is one of the most destructive phenomena accompanying the activities of organized crime. Nonetheless, like many other social phenomena, difficulties emerge as soon as an inclusive definition is attempted. A possible way out of these difficulties may lie in following a purely legalistic approach. From this perspective, corruption may be defined as the illegal use of public office for private gain. "The term 'illegal' means that there exist laws/statutes governing the conduct of those occupying public office ... Whether or not such laws are actually enforced, whether contravention of them is systematically prosecuted is a quite separate question altogether." 17/

37. Corruption of public officials has always been one of the favourite operational tools of organized crime, an integral part of its "business" strategy and planning, to be preferred, whenever possible, to naked violence. The latter may be too "messy", and may attract undue public attention and provoke public reaction. This attitude is particularly present in "sophisticated" forms of organized crime.

38. The money paid as bribes is, accordingly, considered by the "managers" of organized crime as a good investment, a type of overhead which is justifiable,

from a "business" point of view, because it increases considerably the chances of success and the likelihood of impunity, while decreasing and even fully neutralizing the danger of detection, with all the losses that this would entail.

39. Corruption appears to be endemic in a number of countries. "What makes the problem even more difficult is that these practices often appear as minor exchanges of simple courtesies within the framework of everyday dealings, brushed off as unimportant and taken for granted. These so-called favours are accepted in many societies as the only way to do business and eliminate unnecessary delays and obstacles when one has to deal with government agencies ..." 18/ In such cases, corruption seems to be an integral part of the culture. Thus, its "practitioners" may be surprised if told that what they do is either dishonest or unethical.

40. The corruption of officials of the criminal justice system poses a particular threat to all societies. The crucial role of law enforcement makes police corruption particularly pernicious. There is an inherent contradiction in the discharge of police duties in a corrupt manner. Again, the role of the judiciary within the legal system makes the corruption of judges and of members of public ministries a particularly hideous crime. The public reacts to revelations of corruption on the part of police officers, members of the judiciary and public ministries with profound distrust, fear and unwillingness to cooperate with the authorities. This results in serious damage to the fabric of society through a weakening of the commitment of its members to traditional social structures. This is to say that rampant corruption promotes a cynical and opportunistic attitude among those who observe that the venality of public officials goes hand in hand with the impunity of criminals. Why should they then abstain, when opportunity knocks at their door? The fundamental fact is that the perception of the impotence of the State vis-à-vis criminal groups wreaks havoc on the credibility of the rule of law.

41. At a more material level it can be said that the pervasive effects of corruption slow down the development process and hinder economic growth by fostering inertia and inefficiency, thereby imposing a hidden tax on the citizenry. Transaction costs inflated through bribery and other related abuses are passed on to consumers, increasing the cost of living, particularly for the low-income strata. Administrative decisions are no longer made following objective standards, 19/ so that public contracts do not go to the best bidders, but to those companies that provide the largest bribes. Those companies can later recover these monies by reducing the quality of the contracted public works. No wonder if later bridges and buildings collapse, roads are washed away after the first rains, and dams burst, flooding villages.

## B. Impact on the national economic sphere

42. Particularly alarming is the growing infiltration of legitimate business by organized crime. In fact, the millions in profits generated by organized criminal activities are increasingly funnelled, through elaborate money-laundering schemes, into otherwise legitimate enterprises. This infiltration follows several goals, separately or simultaneously, the most obvious of which is the laundering of illicitly acquired monies. The huge profits that have marked the operation of organized crime in recent decades have made infiltration almost indispensable. It has been suggested that only a smaller part of illicit profits is used for the continuation of the criminal activities in question, and that the larger share, channelled in part through so-called

off-shore financial centres, goes into overseas holdings and is absorbed in the international capital flows. 20/

43. In addition to the above, infiltration aims at reducing detection risk and facilitating operations, particularly those across national borders, by offering organized crime established transport and distribution channels.

44. Infiltration may also offer the opportunity to make illicit profits respectable by removing them from the dangerous cycle of investment, sale of merchandise, laundering and investment, where they may be lost through forfeiture of proceeds or seizure of the merchandise by the police. In this manner, criminals become apparently law-abiding, normal citizens, a goal that may be further facilitated by donations to churches, universities, sport clubs, community undertakings and the like. In this manner, the names of crime figures may come to adorn the frontispiece of college libraries and civic halls.

45. Businesses acquired by organized crime are likely to have an edge over their law-abiding competitors, who must worry about profit margins, overhead costs and repayment of bank loans. Moreover, organized crime has an inherent tendency to widen that edge by, if necessary, violent means. In this manner, near-monopolistic situations are created that result in increased profits for organized criminals, while honest competitors are often forced into bankruptcy. All in all, infiltration by organized crime tends almost unavoidably to introduce distortions in the interplay of market forces. In the long run, the impact is on the pockets of the consumers, who, directly or indirectly, will have to pay higher prices.

46. The activities of organized crime have an all-pervasive and highly disturbing impact in other areas of the economy. This is to be expected, in so far as such activities are, almost without exception, related directly or indirectly to it. The economies of developing countries, however, are, as a rule, far more vulnerable to these activities than those of developed countries. This is not surprising, in so far as the vast sums of money which are moved by organized crime are often higher than the total budget of most of these countries. Currency manipulations undertaken by organized crime, either in relation to money-laundering or as a profit-making illicit operation, may have a disastrous effect upon rates of exchange and the banking system in many a country. Further, the presence of large amounts of illicit monies in a country tends to create a dependency which organized criminals are only too inclined to exploit. Inflation may also be a result of the situation. And a sudden withdrawal may throw the domestic financial institutions into disarray. To compound the problem, these countries often lack the resources and know-how needed to defend themselves from the onslaught of organized criminal activities.

47. Although developed countries are less vulnerable, it cannot be said that their economies are truly resistent to the massive interference of organized crime. For example, counterfeiting is mainly profitable in relation to hard currencies, and insurance fraud and fraudulent bankruptcy are more likely to find their victims, be they individuals or companies, in developed countries. The same is predominantly true of computer criminality and credit-card fraud. The profits of organized crime are so huge that no economy can be said to be immune to the impact of this underground economy.

48. The burden of attempting to eradicate the activities of organized crime falls on both developed and developing countries, but the impact is, again, much more serious in the latter, in which it may become a matter of survival.

In their case, scarce resources are either diverted from other goals and allocated to this struggle, or organized crime is allowed to run rampant. In the first case, such expenses diminish the funds available for social programmes and development investment, thereby imperilling social stability and progress. In the second case, organized criminal activities can create an alternative power class, thereby endangering social peace and effective development. Developing countries find themselves, therefore, in a no-win situation, from which they cannot be expected to extricate themselves exclusively by their own effort.

49. Although developed countries have, under normal economic circumstances, a greater capacity to cope with the impact of organized crime upon their economies, it is clear that their economies are taxed by such activities. Thus, in addition to the additional resources that need to be allocated to law enforcement and the judiciary (a single investigation may consume thousands of man-hours and a single trial may cost millions), added means have to be spent in social programmes for the victims of organized criminal activities. Other factors include lost working hours, crimes by addicts and the like, all causing major losses or substantial additional expenses.

### C. Impact on the international economic sphere

50. The effect of laundered capital on the global economy cannot be overlooked. It has been estimated that the capital generated during the 1980s by illegal drug trafficking alone has been in the order of 3,000 billion to 5,000 billion dollars. Some authors estimate the amount as even higher. 21/ According to one estimate by the journal South, made in 1984, between 8 and 9 per cent of total world trade was based on drug trafficking. Such amounts would enable organized crime to effect the world financial system.

51. A case in point is the Bank of Credit and Commerce International (BCCI), which also provides a good example of interfacing between organized crime and legitimate business. The bank had a business volume of US$ 23 billion, and with 14,000 employees was the largest private bank in the United Kingdom of Great Britain and Northern Ireland and the sixth largest of its size in the world in 1989. 22/ It had 425 officers in 73 countries. One official of the Bank of England doubted whether BCCI ever made a profit as a bank, yet it was able to offer its clients in the United Kingdom higher interest than its competitors, presumably because fraud allowed it to engage in unfair competition. 23/

52. BCCI is alleged to have laundered some US$ 20 billion. Whilst other banks have also engaged in money-laundering, the involvement of BCCI in crime went much further, including a "black network" involving some 10 per cent of its employees. This black network included enforcement units trained in the use of arms, espionage and psychological warfare. Its activities included bribing, extortion, kidnapping and, it was said, also murder. 24/ The clients of the bank included high government officials, heads of State and known terrorists. 25/ These illegal activities were carried out in the midst of a legal business involving more than a million ordinary customers.

53. The concern about BCCI is why it took so long before its activities were stopped on 5 July 1991. One theory relates to system overload. The international banking and financial system is, in this view, simply no longer capable of dealing with a sophisticated transnational criminal actor of the format of the BCCI. Every day some US$ 1,400 billion are moved between the nations of the world in the currency trade. Twelve per cent of this is on behalf of

private customers, the remainder in interbank exchange. With the severance of the dollar from the gold standard, the rise of the Eurodollar and petrodollars, and the computer-based instant trade between countries and continents with less and less supervision by intergovernmental authorities, the possibility for abuse and criminal misuse has multiplied. The international money flow increased by 3,200 per cent between 1970 and 1990, 26/ while supervision declined in a series of deregulations. An important role in this growth of volume of international transactions is the existence of off-shore banks, of which some 500 exist in the Caribbean region alone. Secrecy is high, supervision is low, and taxation is absent in most cases. The possibilities for manipulation and fraud in these tax havens with and without the cooperation of corrupt officials are legion. The differences between countries in supervision over their banking business, combined with the ease and velocity of electronic cross-national value transfers from one account to another for customers whose identity can in many cases not be established, has created a labyrinth of a size and changing form that offers a perfect habitat for skillful criminal organizations like BCCI.

54. It took more than a dozen years before the criminal activities of BCCI were fully recognized and action was taken. For a long time, BCCI was treated as a bona fide bank. The World Bank and the International Monetary Fund did business with this bank, granting it credit. 27/ BCCI criminal activities were in the end stopped by national initiatives. The Bank for International Settlements which in 1975 established the "Committee on Banking Regulations and Supervisory Practices", had no significant part in it.

55. What the BCCI affair has made clear is that a flexible transnational bank, acting within a rather static State structure, has the advantage of the initiative and can go on for years before being caught. The international system of supervision is simply no match for a professional transnational criminal actor. The BCCI fraud has been discovered, but it is unknown how many other financial institutions of equally doubtful reputation are still active, nor their potential effect on the world financial system and market. An intensification of international supervision on banking, including supervision of national supervisors or at least mutual control of national regulators, would seem necessary but remains problematic in the present international order.

## D. Other areas of impact

56. The crippling impact of organized crime can also be ascertained in several other spheres of social life. Thus, through the contributions to electoral campaign chests mentioned earlier, organized crime succeeds in infiltrating the legislative bodies of representative democracies with corrupt politicians, who will covertly undertake everything within their power to provide protection for their patrons. In an age where the costs of campaigning have soared beyond the reach of most political organizations, and where the mass media, in particular television, can be all-decisive for success or failure, it is obvious that a well-provided chest can tip the balance in favour of its beneficiary. In this manner, organized crime corrupts the political system, influencing for its own purposes both the electoral and the legislative process. The cynicism fostered by such occurrences is, as stated earlier, the worst enemy of democracy in that it destroys the commitment of the citizen to the rules of the system.

57. Closely connected with the above is the threat to freedom of expression that results from organized crime gaining control of mass media, either by buying newspapers, radio and television stations, or by buying influential members of their staff. A journalist can have immense influence over public

opinion. His or her points of view are often granted a degree of credibility that they may not objectively possess. Such subtle propaganda may distort the perception by the citizenry of prevention efforts on the part of the authorities, thereby weakening public support for such policies.

58. It is clear that the human rights of millions are constantly violated as a direct or indirect result of organized criminal activities. The woman or male adolescent forced into prostitution and virtual enslavement far away from home, the near-slavery status of people who have fallen into the hands of loan sharks, the small entrepreneur whose business is destroyed unless "protection money" is paid, the plain citizen who can no longer go out at night because streets have been made unsafe by drug addicts in need of a fix, the drug addict himself, whose life is shortened and turned into hell by the habit: the list is endless.

## III. FUTURE TRENDS

59. If current developments can be projected into the future, the world is going to be confronted, in the first place, with a massive growth in organized computer criminality. The financial systems of the world will, without a doubt, increase their reliance upon electronic data processing. As their economies develop, more and more countries will join the existing electronic networks which so underpin a dynamic world economy. This unavoidable trend will elicit the greed of organized crime. And experts claim that, so far, no electronic system can be rendered totally safe. There is, therefore, an acute need for legislation in this new area. There is also an equally acute need for training law enforcement personnel in the intricacies of electronic operations, as well as enhanced supervision of the international financial system.

60. As law enforcement succeeds in detecting and forfeiting proceeds of crime and money-laundering operations, infiltration of legitimate business is bound to become more attractive, particularly when its aim is to withdraw those funds permanently from criminal operations so as to make them "respectable". Legislation permitting better detection of laundering schemes, including the possibility for forfeiture and the limitation of bank secrecy to appropriate dimensions, is therefore badly needed.

61. In a world in which money buys status and is the sole vehicle for the "good life", corruption will be seen by organized crime as the best means of securing impunity. In view of the huge size of profits, it is obvious that the bribes offered will always become more and more difficult to resist. Again, the modest salaries of public officials, which are the rule in many developing countries, may make them less resilient to the temptations offered them by organized crime, while the ideology of "materialism" in developed societies can have the same consequences for their civil servants and politicians.

62. Nobody could claim that the problem of illicit drug trafficking shows signs of being solved. In spite of increased seizures, the supply of drugs seems to meet the demand, as indicated by the stability of street prices. Transit lands become more and more users' lands. Nothing indicates a reversal of the trend. The uncertainties caused by what may be considered a global crisis in the economic, political and social fields is pushing people to search for escapes. The abuse of drugs is one such escape.

63. Opportunities will push organized crime to become more and more international. As Governments succeed in coordinating their preventive efforts

through increased cooperation (a development that, although slow in taking form, seems to be more and more favoured by national authorities and by the international community) organized crime will find that the best response is to tighten its own cooperative efforts around the globe. The outcome of this struggle will have major consequences for the physical and psychological well-being of all societies and their members.

## Notes

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2/ See Eighth United Nations Congress on the Prevention of Crime and the Treatment of Offenders, Havana, 27 August-7 September 1990: report prepared by the Secretariat (United Nations publication, Sales No. E.91.IV.2).

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5/ See, "Bonn stops a ring seeking uranium for Yugoslav war" International Herald Tribune, 30 October 1992.

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26/ George Winslow, "The big picture", In These Times, 23-29 October 1991, p. 2.

27/ Loc. cit. p. 9.